

PRACTICE PAPER

1

ACCOUNTANCY

Time allowed: 45 minutes

Maximum Marks: 200

General Instructions:

- (i) The examination will consist of **Objective type with Multiple Choice Questions (MCQs)**.
- (ii) There are a total of **50** questions in this paper, out of which **40** questions are to be attempted.
- (iii) Each question carries **five** marks.
- (iv) There is a **negative** marking of **one** mark for every **incorrect answer**.
- (v) Use of calculators and log tables is **NOT** permitted.

Choose the correct option:

1. Which of the following items is not included in Partners' Capital Accounts?
(a) Interest on Partners' Capital (b) Interest on Loan by Partners
(c) Interest on Partners' Drawings (d) Salaries to Partners
2. Current account of a partner
(a) will always have a credit balance (b) will always have a debit balance
(c) can never have a debit balance (d) may have a debit or credit balance
3. R and X are two partners contributed ₹6,00,000 and ₹8,00,000 respectively. The profit for the year is ₹80,000. X's share in profit would be:
(a) ₹60,000 (b) ₹80,000 (c) ₹20,000 (d) ₹40,000
4. The amount of debit balance of Profit and Loss Account as appearing in the Balance Sheet at the time of admission of a new partner is transferred to:
(a) Revaluation Account (b) New Partners' Capital Account
(c) Old Partners' Capital Accounts (d) All Partners' Capital Accounts
5. Which of the following is a correct statement?
(a) Profit and Loss Adjustment Account is prepared for revaluation of assets and reassessment of liabilities on the admission of a partner.
(b) The new partner is liable for the past losses of the firm.
(c) In case, the new partner is unable to bring in cash for his share of goodwill, a Goodwill Account should be raised in the firm's books as per AS-10.
(d) When a partner is admitted, it is termed as dissolution of the firm.
6. A and B were partners in a firm sharing profits and losses in the ratio of 4 : 3. They admitted C as a new partner. The new profit sharing ratio between A, B and C was 3 : 2 : 2. A surrendered 1/4th of his share in favour of C. B's sacrifice will be:
(a) 2/7 (b) 1/7 (c) 3/7 (d) 1/4
7. Premium on issue of shares is a:
(a) Capital gain (b) Capital loss (c) General Profit (d) General loss

8. Authorised capital ₹2,00,000 of a company is divided into 2,000 shares of ₹100 each. 1,200 shares were issued to the public. The public has applied for 1,500 shares. What will be the amount of issued capital?
 (a) ₹2,00,000 (b) ₹1,20,000 (c) ₹1,50,000 (d) ₹80,000
9. If a share of ₹10 is issued at 40% premium, then what will be the issued price of the share?
 (a) ₹4 (b) ₹14 (c) ₹10 (d) ₹50
10. Which of the following is shown under 'Share Capital' in Balance Sheet?
 (i) Subscribed and fully paid-up capital (ii) Subscribed but not fully paid-up capital
 (iii) Capital Reserve (iv) Reserve Capital

Choose the correct option:

- (a) Only (i) (b) Only (i) and (ii) (c) Only (i) and (iii) (d) Only (i), (ii) and (iii)
11. Given below are two statements—Statement (A) and Statement (B):

Statement A : In the event of death, the combined share of profit of the continuing partners will increase.

Statement B : In the event of death, profit or loss on Revaluation Account is transferred to the continuing partners in the new profit-sharing ratio.

Choose the correct alternative from the following:

- (a) Both statement (A) and statement (B) are correct.
 (b) Statement (A) is correct and statement (B) is incorrect.
 (c) Statement (A) is incorrect and statement (B) is correct.
 (d) Both statement (A) and statement (B) are incorrect.
12. Subscriptions received in cash during the year is ₹5,000, the amount received in advance for the next year is ₹300, the amount outstanding for the current year was ₹400. The amount to be credited to the Income and Expenditure Account is:
 (a) ₹4,600 (b) ₹5,100 (c) ₹4,300 (d) ₹5,700
13. Helping Hands Charitable Club has income of ₹25,000 and 'deficit' debited to Capital Fund of ₹3,500 for the year 2020-21, then expenditure for the year 2020-21 is:
 (a) ₹28,500 (b) ₹3,500 (c) ₹21,500 (d) None of these
14. At the time of dissolution of partnership firm, journal entry for 'Realisation Expenses' borne and paid by the firm by cheque, would be:

- (a) Realisation A/c Dr.
 To Cash A/c
- (b) Realisation A/c Dr.
 To Bank A/c
- (c) Realisation Expenses A/c Dr.
 To Bank A/c
- (d) None of these

15. At the time of dissolution of a partnership firm, the book value of sundry assets transferred to Realisation Account was ₹2,00,000. 50% of these sundry assets were taken by partner A at 20% discount, 40% of remaining assets were sold at a profit of 30% on cost. 5% of the balance was found obsolete and realised nothing. The remaining assets were taken over by a creditor in full settlement of his claim. Realisation Account will be credited by:

- (a) ₹80,000 (b) ₹52,000 (c) ₹1,32,000 (d) ₹1,84,000

16. Given below are two statements—Statement (A) and Statement (B):

Statement A : When debentures are issued at par, they cannot be redeemed at premium.

Statement B : Debentures are normally shown as short-term borrowings under Current Liabilities.

Choose the correct alternative from the following:

- (a) Both statement (A) and statement (B) are correct.

- (b) Statement (A) is correct and statement (B) is incorrect.
 (c) Statement (A) is incorrect and statement (B) is correct.
 (d) Both statement (A) and statement (B) are incorrect.

17. XYZ, a company issued 25,000, 9% Debentures of ₹ 100 each at a discount of 5% redeemable at a premium of 10%. These debentures were redeemable on 31st March, 2020.

At the time of Redemption, Bank A/c will be credited by

- (a) ₹ 25,00,000 (b) ₹ 27,50,000
 (c) ₹ 22,50,000 (d) none of the above.

18. Income and Expenditure Account records income and expenditure of:

- (a) Revenue nature only (b) Capital nature only
 (c) Both revenue and capital nature (d) None of the above

19. Legacies received as specific donations should be treated as:

- (a) Asset (b) Revenue Receipt (c) Capital Receipt (d) None of these

20. A, B and C are equal partners. C retires. He surrenders $\frac{3}{5}$ th of his share in favour of A and $\frac{2}{5}$ th in favour of B. The new profit-sharing ratio of A and B will be:

- (a) 3 : 2 (b) 8 : 7 (c) 1 : 1 (d) None of these

21. Rajat, Mishi and Tanvi were partners in a firm sharing profits and losses in the ratio of 5 : 3 : 2. Tanvi died on 31st October, 2019. According to the partnership agreement, her share of profits from the closure of last accounting year till the date of her death was to be calculated on the basis of aggregate profits of two completed years before death. Profits of the firm for the years ending 31st March, 2018 and 31st March, 2019 were ₹ 57,000 and ₹ 63,000 respectively. The firm closes its books on 31st March every year. Tanvi's share of profits till the date of her death will be:

22. Given below are two statements—Statement (A) and Statement (B):

Statement A : Both cash and non cash expenses and incomes of revenue nature are recorded in the Income and Expenditure Account.

Statement B : Specific donations are shown on the Liabilities side of the Balance Sheet.

Choose the correct alternative from the following:

- (a) Both statement (A) and statement (B) are correct.
 (b) Statement (A) is correct and statement (B) is incorrect.
 (c) Statement (A) is incorrect and statement (B) is correct.
 (d) Both statement (A) and statement (B) are incorrect.

23. If on application for three shares, only one share is to be issued, then how many shares will be issued to an applicant having 1200 shares?

- (a) 300 shares (b) 600 shares (c) 400 shares (d) 1,200 shares

24. Which of the following statements is true about Nominal Share Capital?

- (i) That part of authorised capital which is issued by the company.
 (ii) The amount of capital which is actually applied by prospective shareholders.
 (iii) The amount of capital which is paid by the shareholders.
 (iv) The maximum amount of share capital that a company is authorised to issue.
 (a) only (i) (b) Both (i) and (ii) (c) both (i) and (iv) (d) only (iv)

25. Patel Ltd. forfeited 14,000 equity shares of ₹ 100 each issued at a premium of 10%, for non-payment of first call and final call of each ₹ 40 per share. The maximum amount of discount at which these shares can be reissued will be:

- (a) ₹ 2,80,000 (b) ₹ 4,20,000 (c) ₹ 8,90,000 (d) ₹ 7,00,000

- 26. On the retirement of Hari from the firm of 'Hari, Ram and Sharma' the Balance Sheet showed a debit balance of ₹12,000 in the Profit and Loss Account. For calculating the amount payable to Hari, the balance will be transferred:**
- to the credit of the capital accounts of Hari, Ram and Sharma equally
 - to the debit of the capital accounts of Hari, Ram and Sharma equally
 - to the debit of the capital accounts of Ram and Sharma equally
 - to the credit of the capital accounts of Ram and Sharma equally
- 27. In which of the following case, revaluation account is debited?**
- Increase in value of asset
 - Decrease in value of asset
 - Decrease in value of liability
 - No change in value of assets
- 28. A, B and C are partners. If D enters as a new partner, then:**
- Old firm dissolves
 - Both old firm and old partnership dissolve
 - Old partnership reconstitutes
 - None of these
- 29. Given below are two statements—Statement (A) and Statement (B):**
- Statement A :** When the new partner brings his share of goodwill premium in cash, it is transferred to the capital accounts of sacrificing partners.
- Statement B :** The treatment of goodwill is undertaken at the time of admission of a partner to compensate the old partners for their sacrifice.
- Choose the correct alternative from the following:**
- Both statement (A) and statement (B) are correct.
 - Statement (A) is correct and statement (B) is incorrect.
 - Statement (A) is incorrect and statement (B) is correct.
 - Both statement (A) and statement (B) are incorrect.
- 30. Given below are two statements—Statement (A) and Statement (B):**
- Statement A :** Authorised Capital or Nominal Capital refers such capital as is authorised by the memorandum of a company to be the maximum amount of share capital of the company.
- Statement B :** Authorised Capital is the amount stated in the capital clause of the Memorandum of Association of a Company with which the company is registered and is entitled to issue shares of that much amount and number.
- Choose the correct alternative from the following:**
- Both statement (A) and statement (B) are correct.
 - Statement (A) is correct and statement (B) is incorrect.
 - Statement (A) is incorrect and statement (B) is correct.
 - Both statement (A) and statement (B) are incorrect.
- 31. Loss or Discount on issue of debentures is written off from:**
- Securities Premium Reserve
 - Statement of Profit and Loss
 - Securities Premium Reserve (if it exists) and thereafter from Statement of Profit and Loss
 - None of the above
- 32. Shashi Ltd. issued 6,000 Debentures of ₹100 each at a premium of ₹10. It will credit Debentures Account by:**
- ₹6,60,000
 - ₹6,00,000
 - ₹4,50,000
 - None of these
- 33. D Ltd. issues 30,000, 10% Debentures of ₹100 each at a discount of 5% to be repaid at par at the end of 5 years. The Debenture Application and Allotment Account will be debited by:**
- ₹30,00,000
 - ₹28,50,000
 - ₹1,50,000
 - None of the above

34. The opening balance of Tournament Fund was ₹2,700. Further donations received towards this fund during the accounting year amounted to ₹2,400. During the year ₹1,750 was spent on prizes and ₹200 was received as interest on investment of Tournament Fund. The closing balance of Tournament Fund is:
- (a) ₹3,550 (b) ₹5,300
(c) ₹5,100 (d) ₹5,450
35. On 1st April, 2021 A and B enter into partnership contributing ₹40,000 and ₹30,000 respectively. Interest on capital is to be allowed at 12% per annum. During the year, A withdrew ₹10,000 and B ₹15,000. Interest charged on drawings was: A ₹1,000 and B ₹1,500. Profits at the end of the year 31st March, 2022 before making any of the above adjustments was ₹34,000.
- Profit at the end of the year will be transferred to:
- (a) A's Capital A/c ₹4,800 B's Capital A/c ₹3,600 (b) A's Capital A/c ₹14,050 B's Capital A/c ₹14,050
(c) A's Capital A/c ₹18,050 B's Capital A/c ₹18,050 (d) A's Capital A/c ₹14,050 B's Capital A/c ₹18,050
36. At the time of admission of a partner, which of the following will be recorded through Revaluation Account?
- (i) Increase in value of Business Premises
(ii) Decrease in value of Sundry Creditors
(iii) Goodwill Premium brought in by incoming partner
(iv) Existing Goodwill written off
- Choose the correct option:
- (a) (i) and (ii) (b) (iii) and (iv) (c) (i) and (iii) (d) (i), (ii) and (iv)
37. On the basis of the following data, how much final payment will be made to a partner on firm's dissolution? Credit balance of capital account of the partner was ₹50,000. Share of loss on realization amounted to ₹10,000. Firm's liability taken over by him was for ₹8,000.
- (a) ₹32,000 (b) ₹48,000
(c) ₹40,000 (d) ₹52,000
38. Yash and Karan were partners in an interior designer firm. Their fixed capitals were ₹6,00,000 and ₹4,00,000 respectively. There were credit balances in their current accounts of ₹4,00,000 and ₹5,00,000 respectively. The firm had a balance of ₹1,00,000 in General Reserve. The firm did not have any liability. They admitted Radhika into partnership for 1/4th share in the profits of the firm. The average profits of the firm for the last five years were ₹5,00,000. Calculate the value of goodwill of the firm by capitalisation of average profits method. The normal rate of return in the business is 10%
- (a) ₹20,00,000 (b) ₹30,00,000 (c) ₹10,00,000 (d) ₹9,00,000
39. Which of the following will always be classified under the head 'Non-current Assets' and sub-head 'Fixed assets'?
- (a) Work-in-progress (b) Livestock
(c) Licenses and Franchise (d) Both (b) and (c)
40. The main objective of analysis of financial statements is to:
- (a) Attain managerial efficiency (b) Have knowledge of solvency capacity
(c) Compare financial results (d) All of the above
41. When current Ratio is 2:5 and the amount of current liabilities is ₹25,000, what is the amount of current assets?
- (a) ₹62,500 (b) ₹12,500 (c) ₹10,000 (d) ₹2,000
42. Read the following statements—Assertion (A) and Reason (R). Choose one of the correct alternatives given below:
- Assertion (A):** Liquidity Ratios are the ratios meant for testing short-term solvency position of the firm.
Reason (R) : Interest Coverage Ratio is a type of liquidity ratio.
- Choose the correct alternative from the following:
- (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)
(b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A)

- (c) Assertion (A) is true but Reason (R) is false
(d) Assertion (A) is false but Reason (R) is true

43. Example of cash flow from financing activities includes:

- (a) Receipt of interest (b) Sale of stock (c) Sale of investments (d) Issue of shares for cash

44. Match the items as defined in schedule III of the Companies Act, 2013:

| Column I | Column II |
|---|---|
| (i) Forfeited Shares Account | (A) Fixed Assets—Capital Work-in-Progress |
| (ii) Capital Advances | (B) Share Capital |
| (iii) Factory Building under construction | (C) Other Current Liabilities |
| (iv) Outstanding Salary | (D) Non-Current Investments |
| (v) Shares in Infotech Ltd. | (E) Long-term Loans and Advances |

Choose the correct option:

- (a) (i)-(A), (ii)-(C), (iii)-(B), (iv)-(E), (v)-(D) (b) (i)-(D), (ii)-(A), (iii)-(B), (iv)-(C), (v)-(E)
(c) (i)-(B), (ii)-(E), (iii)-(A), (iv)-(C), (v)-(D) (d) (i)-(E), (ii)-(B), (iii)-(A), (iv)-(D), (v)-(A)

45. Given below are two statements—Statement (A) and Statement (B):

Statement (A) : Proceeds from the sale of fixed assets is shown under financing activities in the Cash Flow Statement.

Statement (B) : Patent purchased and completely amortised in the year of purchase is added under operating activities and shown as Outflow under investing activities.

Choose the correct alternative from the following:

- (a) Both statement (A) and statement (B) are correct.
(b) Statement (A) is correct and statement (B) is incorrect.
(c) Statement (A) is incorrect and statement (B) is correct.
(d) Both statement (A) and statement (B) are incorrect.

46. Which one of the following is correct?

When debentures are redeemed, the debt-equity ratio:

- (i) will increase (ii) will decrease
(iii) will not change (iv) will depend on the amount of debentures

Choose the correct option:

- (a) Only (i) (b) Only (ii) (c) Both (i) and (iv) (d) Both (ii) and (iv)

47. Operating ratio discloses the relationship between the items of:

- (a) Operating expenses and total revenue from operations
(b) Gross profit and selling expenses
(c) Total purchases and total revenue from operations
(d) Cost of revenue from operations and operating expenses with net revenue from operations

48. M/s Janvi and Sons, a manufacturing company received proceeds from the issue of 9% Debentures ₹3,00,000, redeemed 8% Debentures ₹1,00,000, Interest paid on debentures ₹40,000.

How much amount related to the above information, will be shown in Financing Activities for Cash Flow Statement?

- (a) Cash Inflow ₹3,00,000 (b) Cash Outflow ₹3,00,000
(c) Cash Inflow ₹1,60,000 (d) Cash Outflow ₹1,60,000

49. Machinery was purchased for ₹10,00,000, paying 40% by issue of equity shares of ₹ 10 each and the balance by a cheque. This transaction will result in:

- (a) Cash used in investing activities ₹6,00,000 (b) Cash generated from financing activities ₹ 4,00,000.
(c) Decrease in cash and cash equivalents ₹ 10,00,000. (d) Cash used in investing activities ₹ 10,00,000.

50. Which of the following is not included in cash and cash equivalents?

- (a) Balances with banks (b) Bank deposits with 100 days of maturity
(c) Cheques and drafts in hand, and (d) Cash in hand

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1. (b) 2. (d) 3. (d) 4. (c) 5. (a) 6. (b) 7. (a)
8. (b) 9. (b) 10. (b) 11. (b) 12. (b) 13. (a) 14. (b)
15. (c) 16. (d) 17. (b) 18. (a) 19. (c) 20. (b) 21. (c)
22. (a) 23. (c) 24. (d) 25. (a) 26. (b) 27. (b) 28. (c)
29. (a) 30. (a) 31. (c) 32. (b) 33. (b) 34. (a) 35. (b)
36. (a) 37. (b) 38. (b) 39. (d) 40. (d) 41. (c) 42. (c)
43. (d) 44. (c) 45. (c) 46. (b) 47. (d) 48. (c) 49. (a)
50. (b)

SOLUTIONS

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3. In the absence of partnership deed, profit will be shared among partners in equal ratio, i.e., 1:1.
6. A's Old Share = $\frac{4}{7}$
 A's Sacrifice = $\frac{1}{4}$ of $\frac{4}{7} = \frac{1}{7}$
 C's Share = $\frac{2}{7}$
 B's Sacrifice = C's Share – A's Sacrifice = $\frac{2}{7} - \frac{1}{7} = \frac{1}{7}$
 Or
 B's Sacrifice = B's Old Share – B's New Share = $\frac{3}{7} - \frac{2}{7} = \frac{1}{7}$.
8. Issued Capital = $1,200 \times ₹100 = ₹1,20,000$
12.

| | (₹) |
|--|-------|
| Subscriptions received during the year | 5,000 |
| Less: Amount received for next year | (300) |
| Add: Outstanding for the current year | 400 |

Amount credited to Income and Expenditure Account

5,100

| Dr. | | Income and Expenditure Account | | Cr. |
|--------------------|---------------|--------------------------------|---------------|-----|
| Expenditure | (₹) | Income | (₹) | |
| Expenditures | 28,500 | Income | 25,000 | |
| (Balancing Figure) | | Deficit | 3,500 | |
| | <u>28,500</u> | | <u>28,500</u> | |

15. **Journal**

| Date | Particulars | L.F. | Dr. (₹) | Cr. (₹) |
|------|--|------|---------|----------|
| | A's Capital A/c Dr. | | 80,000 | |
| | Bank A/c Dr. | | 52,000 | |
| | To Realisation A/c | | | 1,32,000 |
| | (Being the assets whose book values were ₹1,00,000 were taken over by A for ₹80,000 and the assets whose book values were ₹40,000 were sold for ₹52,000) | | | |

17.

| Date | Particulars | L.F. | Dr. (₹) | Cr. (₹) |
|------|--|------|-----------|-----------|
| | 9% Debentures A/c Dr. | | 25,00,000 | |
| | Premium on Redemption of Debentures A/c Dr. | | 2,50,000 | |
| | To Debentureholders' A/c | | | 27,50,000 |
| | (Being debentures and premium due on redemption) | | | |

20. A's old share = $\frac{1}{3}$, B's old share $\frac{1}{3}$, C's old share $\frac{1}{3}$

A's gain = $\frac{1}{3} \times \frac{3}{5} = \frac{3}{15}$

A's new share = $\frac{1}{3} + \frac{3}{15} = \frac{5+3}{15} = \frac{8}{15}$

B's gain = $\frac{1}{3} \times \frac{2}{5} = \frac{2}{15}$

B's new share = $\frac{1}{3} + \frac{2}{15} = \frac{5+2}{15} = \frac{7}{15}$

New Ratio of A and B = 8 : 7

21. Aggregate profits = 57,000 + 63,000 = ₹1,20,000

Tanvi's share = $1,20,000 \times \frac{2}{10} \times \frac{7}{12} = ₹14,000$

25. Maximum amount of discount = $14,000 \times ₹20$ (Total amount received and forfeited)
= ₹2,80,000

32. Debentures A/c will be credited by nominal value of debentures, i.e., $6,000 \times ₹100 = ₹6,00,000$

33. **Journal**

| Date | Particulars | L.F. | Dr. (₹) | Cr. (₹) |
|------|---|------|-----------|-----------|
| | Debenture Application and Allotment A/c Dr. | | 28,50,000 | |
| | Discount on Issue of Debentures A/c Dr. | | 1,50,000 | |
| | To 10% Debentures A/c | | | 30,00,000 |
| | (Being debentures issued at discount) | | | |

35.

Profit and Loss Appropriation Account

Dr.

for the year ending on 31st March, 2018

Cr

| Particulars | (₹) | Particulars | (₹) |
|------------------------------|---------------|---------------------------------------|---------------|
| To Interest on Capitals A/c: | | By Profit and Loss A/c (being profit) | 34,000 |
| A's Capital (40,000 × 12%) | 4,800 | By Interest on Drawings A/c: | |
| B's Capital (30,000 × 12%) | 3,600 | A's Capital A/c | 1,000 |
| To Profit transferred to: | | B's Capital A/c | 1,500 |
| A's Capital A/c (½) | 14,050 | | |
| B's Capital A/c (½) | 14,050 | | |
| | 28,100 | | |
| | <u>36,500</u> | | <u>36,500</u> |

37.

Dr.

Partner's Capital Account

Cr.

| Particulars | (₹) | Particulars | (₹) |
|---------------------------|---------------|------------------------|---------------|
| To Realisation A/c | 10,000 | By Balance b/d | 50,000 |
| (share of loss) | | By Realisation A/c | 8,000 |
| To Cash A/c | 48,000 | (Liability taken over) | |
| (Payment made to partner) | | | |
| | <u>58,000</u> | | <u>58,000</u> |

$$38. \text{ Capitalised Value of the Business} = \frac{\text{Average Profit} \times 100}{\text{Normal Rate of Return}}$$

$$= ₹5,00,000 \times \frac{100}{10} = ₹50,00,000$$

$$\text{Capital Employed} = 6,00,000 + 4,00,000 + 4,00,000 + 5,00,000 + 1,00,000 = ₹20,00,000$$

$$\text{Goodwill} = ₹50,00,000 - ₹20,00,000 = ₹30,00,000$$

$$41. \text{ Current Ratio} = \frac{2}{5} = \frac{x}{25,000}$$

$$\Rightarrow 5x = 50,000$$

$$\Rightarrow x = 10,000$$

48.

| | (₹) |
|---------------------------------------|-----------------|
| Proceeds from Issue of 9% Debentures | 3,00,000 |
| Redemption of 8% Debentures | (1,00,000) |
| Interest paid on debentures | (40,000) |
| Cash inflow from Financing Activities | <u>1,60,000</u> |